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SIPDIS

SENSITIVE

STATE FOR AF/W AND EB
STATE PASS EX-IM, TDA AND OPIC
STATE PASS USTR AND DOE

E.O. 12958: N/A
TAGS: EPET EINV OPEC
SUBJECT: NIGERIA COMPLETES FINANCING PACT FOR BILLION DOLLAR NATURAL GAS PROJECT

Summary

¶1. (U) On January 23, Nigeria LNG (NLNG) held a signing ceremony for the six Nigerian banks providing $160 million of the $1.06 billion financing for Nigeria's fourth and fifth liquefied natural gas production trains. State-owned Nigerian National Petroleum Corporation (NNPC) holds 49 percent of Nigeria LNG. (Other partners are Shell 25.6 percent, Elf 15 percent and Agip 10.4 percent.) NLNG also announced it was seeking financing for $460 million to construct four LNG tankers, and NNPC announced a possible new venture with Shell Oil and Norway's StatOil for a $1 billion floating natural gas plant off Akwa Ibom's coast.

¶2. (U) NLNG's successful financing contrasts with recent financing difficulties that threatened privatization of NITEL, the national telephone company, and shipbuilder NIGERDOCK. Banking executives said the key this time was the nature of the business. Financing for this project posed little risk as NLNG already has sufficient guarantees for future sales.

¶3. (U) The GON predicts LNG will provide 20 percent of Nigeria's GDP when the first five trains are on line in late ¶2005. Natural gas eventually may surpass oil income, providing Nigeria another bonanza similar to the oil boom of the 1970s. This would offer Nigeria a second chance to use a natural resource windfall to catalyze development. End Summary.

Initial Snags in the Signing

¶4. (SBU) Only a week to a preliminary signing in London on December 17, 2002, the Ambassador was contacted separately by Nigeria LNG Managing Director Andrew Jamieson and Ex-Im Bank officials concerning the wording of a GON letter of assurances to the Export Credit Agencies (ECAs). Ex-Im and the British, Italian, and Dutch ECAs are guaranteeing $600 million of the loans for the fourth and fifth liquefied natural gas trains. Ex-Im asked the Embassy to coordinate with the British High Commission to help resolve the impasse. The ECAs feared that hesitance by the Minister of Finance and the Attorney General to sign the letter meant the GON was wavering in its support for the NLNG. The ECAs also wanted an explicit commitment that loans would be repaid directly through NLNG's foreign bank accounts and not through the GON's federation account, thus protecting payments from budgetary and bureaucratic delays as well as exchange rate losses that sometimes affect oil joint ventures.

¶5. (SBU) Meanwhile, Jamieson approached the Ambassador and British High Commissioner for their assistance in communicating with the ECAs. The Minister of Finance opposed the Central Bank of Nigeria (which ultimately might have a say in payment) signing the letter of assurance. Finance Minister Ciroma believed this would signal that the NLNG debt was sovereign debt, and not that of a private company. The Ministry of Justice, for its part, argued that the proposed letter of assurances went beyond the decrees of 1990 and 1993 that created NLNG and established new obligations beyond the scope of the law.

¶6. (SBU) While the Embassy and High Commission coordinated messages between London, Washington and Abuja, NNPC Group Managing Director Jackson Gaius-Obaseki spoke with the Ministers. The result was a letter of assurances that managed to address the concerns of the Ministries, while also satisfying the ECAs and the international lending community at large. The Ministers of Justice and Finance appreciated the personal assistance of Ambassador Jeter and High

Commissioner Phillip Thomas, singling them out for recognition at the signing.

A Good Time Was Had By All--Almost All

¶7. (SBU) The mood of the bankers at the January 23 signing was very upbeat. Numbering approximately 30, the group included representatives from the six local banks as well as the NLNG's own London-based financing team and African Development Banks officials. All were optimistic there would be no problem in financing the next $460 million for the four tankers, with one calling natural gas projects, "the best and safest financing projects going."

¶8. (U) Just a week after the signing, the Nigerian press reported progress on a feasibility study undertaken with Norway's StatOil for the $1 billion Nnwa/Doro Floating LNG plant off the coast of Akwa Ibom. That LNG plant is one of the three new plants the Federal Government hopes will raise income from natural gas to at least 50 percent of crude oil earnings by 2005. The other two are the Brass LNG project and the Niger Delta LNG project.

Background on NLNG

¶9. (U) The Nigeria LNG Limited was incorporated as a limited liability company on May 17, 1989 to harness Nigeria's vast natural gas resources and produce Liquefied Natural Gas (LNG) for export. At incorporation, the NLNG had a shareholding structure of NNPC (60 percent), Shell Gas BV (20 percent), Cleag Limited, now Total/Fina/Elf (10 percent) and Agip International (10 percent). In 1993, the shareholding structure changed to NNPC (49 percent), Shell (25.6 percent), Total/Fina/Elf (15 percent), and Agip (10.4 percent). The company has a wholly owned subsidiary, the Bonny Gas Transport Limited (BGT), established in December 1989. BGT provides shipping services for the NLNG.

¶10. (U) Nigeria currently has massive reserves of associated and non-associated gas. An estimated 120 trillion cubic feet ranks its proven reserves as the world's tenth largest. Geologists believe more gas will be discovered when companies deliberately explore for it, as opposed to inadvertently finding it while looking for oil. Geologically speaking, many believe the Niger Delta is a gas province with oil rims.

¶11. (U) The LNG plants are called trains. The base project (trains 1 and 2) commenced production on September 15, 1999 and exported the first cargo on 9th October 1999. The two trains are currently producing at full capacity. The Final Investment Decision (FID) on train 3 was signed in February
¶1999. It was ready for start-up by November 7, 2002. Production commenced on 28 November, with first shipment on December 17, 2002. Train 3 was completed on budget, ahead of schedule.

¶12. (U) Also referred to as the NLNG Plus, the Final Investment Decision (FID) on the 4th and 5th trains was signed on March 20, 2002. Each train has a LNG capacity of 4 million tons per annum and up to 0.5 million tons per annum of LPG. Train 4 will be ready for start-up in June 2005 and Train 5 in November 2005. Trains 4 and 5 will bring the overall production capacity of the NLNG Limited to 17 million tons per annum of LNG, one million tons of condensate and 2.3 million tons of LPG per annum.

¶13. (U) Nine ships with individual cargo capacity of between 120,000 and 135,000 cubic meters are used for transporting LNG from Bonny Island to buyers, mainly in Europe and the United States. Eight are owned by the NLNG through its wholly owned subsidiary--Bonny Gas Transport Limited (BGT)--while the ninth, LNG Delta, is chartered on a long-term basis from Shell Bermuda Overseas Limited. A tenth, the newly-built LNG Bayelsa is scheduled to join the fleet this month.

¶14. (U) Eight additional ships are required to meet the distribution needs of the project's increased capacity including trains 4 and 5. In December 2001, NLNG signed a ship building agreement with Hyundai Heavy Industries, South Korea for the construction of four new ships. Delivery will begin in November 2004. The other four ships will be chartered from Bergesen A.Y.A SAU of Norway, which will build the ships at Daewoo Shipyard in South Korea. With 18 vessels, BGT will be the single largest LNG fleet owner in the world.

Comment

¶15. (SBU) Nigeria LNG is the most recent and biggest economic success story for the GON. The importance of NLNG and natural gas production to the Nigerian economy will continue to grow. There are many reasons: strong support from President Obasanjo; the recent success of similar projects in Asia and other places; a drastic reduction in gas flaring and severe environmental pollution; and the fact that, unlike oil, natural gas production will not be constrained by the OPEC quota system. NLNG's private sector status also means that the industry can continue to incur heavy debts without Nigeria becoming further buried in politically unpopular sovereign debt. Perhaps most importantly, LNG will be a critical new source of revenue as the GON has seen its civil service salaries and other recurrent expenditures grow to take up more than 80 percent of present oil revenues.

¶16. (SBU) But NLNG's very success is seen by some as a potential problem. World Bank Country Director Mark Tomlinson believes that for Nigeria to get its house in order it needs an intense economic crisis, such as the one it has barely skirted for the last two years. Only under such dire pressure will the government and ruling elite implement the necessary reforms. Large-scale infusions of LNG money will encourage Nigerian politicians and the GON to postpone the day of reckoning and continue policies that fritter away the nation's wealth--just as these same people and policies have wasted much of the income from oil resources over the last 25 years, Tomlinson believes.

¶17. (SBU) Despite high capital costs, the GON, NNPC and foreign partners seem to have a deep thirst for LNG plants. There are limits, however. Work on new plants will not proceed without guaranteed markets. The GON will have to decide if the timing is right for Nnwa/Dora and its two companions to move forward, especially without evidence of a stronger worldwide economic recovery. NLNG may be reaching the end of its first growth year. End Comment.
JETER